



To: Audit and Procurement Committee

Date: 13th November 2017

Subject: City Council Treasury Management Investment Activity

1 Background and Purpose of the Note

This note provides an update on the Council's Treasury Management activity.

2 Treasury Management Activity

- 2.1 Appendix 1 in this report shows the Council's Lending List – a list of those banking and government institutions that the Council's Investment Strategy allows us to invest cash balances with. Appendix 2 shows the most recent list of investments that the Council holds.
- 2.2 The current lending list is maintained in line with advice provided by the Council's Treasury Management advisors (Arlingclose) which bases its judgement on information from credit rating agencies.
- 2.3 Since the last report in October 2016, the main change to the lending list is the reduction in the counterparty limits. The counterparty limits are based on the expected cash levels for the coming year. As a result of paying three years pension contributions upfront, totalling £93.3m it was anticipated that the Council's cash balances would be lower than previous years. Therefore counterparty limits have been reduced from £10m to £8m.

Also, three unrated Building Societies and a Bank have been removed from the approved lending lists based on advice from Arlingclose due to worsening credit metrics. The Council have never dealt with any of the institutions involved.

The counterparty limits have also been adjusted based on school current account balances. The Council takes these into consideration when setting counterparty limits as in the event of a bank failure these balances would be bailed-in as well as Council investments. School current account balances held with Lloyds Bank have increased, therefore, the Council's counterparty limits with Lloyds bank has reduced to £3.4m from £4.4m. The Council currently holds an investment with Lloyds bank for £4.4m however, this is within the Treasury Management Strategy because, although it is exceeding the counterparty limit now, when the investment was made it was within the counterparty limit.

There are two instances where the Council's current investments exceed the counterparty limit of £8m. The first of these is the 95 day notice account with Santander and the other is the investment in the CCLA property fund. While it is within the Council's Treasury Management Strategy to hold investments over the current counterparty limit as long as the counterparty limit wasn't breached at the time of investment, the decision has been made to disinvest £2m from the Santander notice account to bring the investment in line with current limits and the Council are currently serving the notice period before receiving the funds.

With regard to the CCLA property fund, a decision was made by Council to adjust the Treasury Management Strategy to increase the maximum investment limit with property funds to £10m to take advantage of the relatively strong returns from the fund combined with the relatively high level security within this type of investment. Full details can be seen in the lending list in Appendix 1.

2.4 The total level of investment balances held by the Council stood at £110.4m as at 20th October 2017 compared with £178.9m as at 21st October 2016. The main reason for the reduction in investment balances over the past 12 months is due to the £93.3m upfront pension contribution payment made in April 2017. The breakdown of these balances is shown below.


	21/10/2016 £m	20/10/2017 £m
Bank Deposits	53.4	24.4
Local Authority Deposits	5.0	0.0
Money Market Funds	32.1	26.7
Collective Investment Funds	38.5	39.9
Corporate Bonds	34.9	11.4
Housing Associations	15.0	8.0
Total	178.9	110.4

2.5 Since the last report no short term borrowing has been undertaken, due to the high levels of investment balances held by the Council.

2.6 The counterparty limit with NatWest is only £3.5m due to them having a lower credit rating (BBB+) than other UK banks and some schools have their current accounts with NatWest. On 12/09/2017 the Council exceeded that limit with an end of day balance of £4.6m. This was due to uncertainty surrounding a potential receipt of £4.5m relating to the Whitley South scheme. All dealing needs to be done by 1pm before investment markets close and so the decision was taken to proceed as if the receipt would not be received to negate the risk of the Council having an overdrawn balance. However, at 4pm the Council did receive the £4.5m leading to the end of day balance of £4.6m.

Counterparty limits are a notional limit set by the Council designed to reduce exposure to Council investments being bailed-in in the event of a bank failure. As such exceeding counterparty limits carries no penalties other than The Council has an increased exposure to investments being bailed-in if NatWest had defaulted overnight on 12/09/2017.

Appendix 1

 COVENTRY CITY COUNCIL LENDING LIST							24/10/2017			
<i>USING MINIMUM ACCEPTABLE CREDIT QUALITY</i> Institution		Country	Long Term Rating			Limit £m	Term Limit	Position number in Investment Grade*		
			Fitch	Moody's	S & P			Fitch	Moody's	S&P
Debt Management Office		UK	AA+	Aa1	AAA		50 years	2	2	1
Local Authorities		UK	AA+	Aa1	AAA	£8m	25 years	2	2	1
HSBC Bank plc (* See note below)		UK	AA-	Aa3	AA-	£7.8m	6 Months	4	4	4
Lloyds Bank Group										
Bank of Scotland plc (** See note below)		UK	A+	Aa3	A	£3.4m	6 Months	5	4	6
Barclays Bank plc		UK	A	A+	A	£8m	100 Days	6	5	6
Coventry BS		UK	A	A2		£8m	6 Months	6	6	
Close Brothers Ltd		UK	A	Aa3		£8m	6 Months	6	4	
Lloyds Bank Group										
Lloyds Bank plc (** See note below)		UK	A+	Aa3	A	£3.4m	6 Months	5	4	6
Nationwide BS		UK	A+	Aa3	A	£8m	6 Months	5	4	6
Santander UK Plc (Abbey)		UK	A	Aa3	A	£8m	6 Months	6	4	6
Standard Chartered Bank		UK	A+	A1	A	£8m	100 Days	5	5	6
Goldman Sachs International Bank		UK	A	A1	A+	£8m	100 Days	6	5	5
Leeds Building Society		UK	A-	A3		£8m	100 Days	7	7	
National Westminster Bank & Royal Bank of Scotland plc		UK	BBB+	A3	BBB+	£3.5m	35 Days	8	7	8
DARLINGTON BUILDING SOCIETY		UK				£1m	100 Days			
FURNESS BUILDING SOCIETY		UK				£1m	100 Days			
HINCKLEY & RUGBY BUILDING SOCIETY		UK				£1m	100 Days			
LEEK UNITED BUILDING SOCIETY		UK				£1m	100 Days			
MANSFIELD BUILDING SOCIETY		UK				£1m	100 Days			
MARSDEN BUILDING SOCIETY		UK				£1m	100 Days			
MELTON MOWBRAY BUILDING SOCIETY		UK				£1m	100 Days			
NATIONAL COUNTIES BUILDING SOCIETY		UK				£1m	100 Days			
NEWBURY BUILDING SOCIETY		UK				£1m	100 Days			
SCOTTISH BUILDING SOCIETY		UK				£1m	100 Days			
TIPTON & COSELEY BUILDING SOCIETY		UK				£1m	100 Days			
Australia and New Zealand Banking Group Ltd		AU	AA-	Aa3	AA-	£8m	6 Months	4	4	4
Commonwealth Bank of Australia		AU	AA-	Aa3	AA-	£8m	6 Months	4	4	4
Westpac Banking Corporation		AU	AA-	Aa3	AA-	£8m	6 Months	4	4	4
Bank of Montreal		CA	AA-	A1	A+	£8m	6 Months	4	5	5
Bank of Nova Scotia		CA	AA-	A1	A+	£8m	6 Months	4	5	5
Canadian Imperial Bank of Commerce		CA	AA-	A1	A+	£8m	6 Months	4	5	5
Royal Bank of Canada		CA	AA	A1	AA-	£8m	6 Months	3	5	4
Toronto Dominion Bank		CA	AA-	Aa2	AA-	£8m	6 Months	4	3	4
Danske Bank A/S		DK	A	A1	A	£8m	100 Days	6	5	6
OP Corporate Bank		FI		Aa3	AA-	£8m	6 Months		4	4

LANDESBANK HESSEN-THURINGEN	GE	A+	A1	A	£8m	6 Months	5	5	6
Cooperative Centrale Raiffe (Rabobank)	NE	AA-	Aa2	A+	£8m	13 Months	4	3	5
ING Bank NV	NE	A+	Aa3	A+	£8m	100 Days	5	4	5
DBS Bank Ltd	SI	AA-	Aa1	AA-	£8m	13 Months	4	2	4
Oversea-Chinese Banking Corp	SI	AA-	Aa1	AA-	£8m	13 Months	4	2	4
United Overseas Bank Ltd	SI	AA-	Aa1	AA-	£8m	13 Months	4	2	4
Nordea Bank AB	SW	AA-	Aa3	AA-	£8m	13 Months	4	4	4
Svenska Handelsbanken AB	SW	AA	Aa2	AA-	£8m	13 Months	3	3	4
Credit Suisse	SZ	A	A1	A	£8m	100 Days	6	5	6
MONEY MARKET FUNDS (MMFs)									
Deutsche Bank Advisors	Ireland		Aaa	AAA	£8m			1	1
Federated Investors	UK	AAA	Aaa	AAA	£8m		1		1
HSBC Asset Management	Ireland		Aaa	AAA	£8m			1	1
Morgan Stanley Investment Management	Luxembourg	AAA	Aaa	AAA	£8m				
Standard Life Investments	Ireland	AAA		AAA	£8m		1		1
HSBC Bank plc * - (Reduced limit)	UK	£0.2m School balances at HSBC					8 = Borderline rating		
Lloyds Banking Group									
Bank of Scotland plc ** - (Reduced limit)	UK	£4.6m School balances at Lloyds							
Lloyds Banking Group									
Lloyds Bank plc ** - (Reduced limit)	UK	£4.6m School balances at Lloyds							
RBS Group									
National Westminster Bank *** - (Reduced limit)	UK	£0.5m School balances at Nat West							
RBS Group									
Royal Bank of Scotland plc *** - (Reduced limit)	UK	£0.5m School balances at Nat West							
Group Limits: £16m per non UK Country, £16m in total in Unrated Building Societies.									

Appendix 2

TEMPORARY LOANS BOOK

Balances as at the 20/10/17

<u>LOAN REF.</u>	<u>LENDER NAME</u>	<u>BROKER</u>	<u>PRINCIPAL</u>	<u>START DATE</u>	<u>MATURITY DATE</u>	<u>INITIAL INT RATE</u>	<u>DAYS</u>	<u>INT DUE</u>
TEMPORARY LOAN OUT (DEPOSIT)								
200004136	GOLDMAN SACHS INTER BANK	BT	2,500,000.00	27/07/17	03/11/17	0.310000	99	2,102.05
200004137	GOLDMAN SACHS INTER BANK	BT	3,000,000.00	28/07/17	03/11/17	0.310000	98	2,498.99
200004138	GOLDMAN SACHS INTER BANK	BT	2,500,000.00	03/08/17	10/11/17	0.330000	99	2,237.67
200004140	DARLINGTON BUILDING SOC	SB	1,000,000.00	31/08/17	08/12/17	0.380000	99	1,030.68
200004141	NATIONAL COUNTIES B SOCIETY	BT	1,000,000.00	15/09/17	22/12/17	0.350000	98	939.73
200004126	LLOYDS BANK	N/A	4,400,000.00	07/04/17	09/04/18	0.800000	367	35,392.88
200004133	PLACES FOR PEOPLE HOME LTD	BT	3,000,000.00	25/04/17	24/04/18	1.250000	364	37,397.26
200004135	PLACES FOR PEOPLE HOME LTD	BT	5,000,000.00	03/07/17	02/07/18	1.250000	364	62,328.77
			22,400,000.00					143,926.03
TEMPORARY LOAN OUT (CALL DEPOSITS)								
200004051	SANTANDER UK plc	N/A	10,000,000.00	06/08/15		0.400000		Call Money
			10,000,000.00					
FIXED BONDS								
1700000039	DAIMLER AG	KS	5,000,964.66	02/12/16	01/12/17	0.728307	364	36,222.84
1700000042	RELX INVESTMENTS PLC	KS	1,014,721.87	29/08/17	11/12/17	0.615000	104	1,778.13
1700000017	COVENTRY BUILDING SOCIETY	KS	5,398,330.00	06/11/15	19/04/18	1.272358	895	168,422.05
			11,414,016.53					206,423.02
MMF DEPOSITS								
2400000002	SLI INVESTEMNTS LIQUIDITY	N/A	8,000,000.00	04/09/12		0.195165		
2400000003	HSBC STERLING LIQUIDITY	N/A	0.00	04/09/12		0.149600		
2400000004	FEDERATED PRIME RATE	N/A	8,000,000.00	17/09/12		0.200202		
2400000005	DEUTSCHE MANAGED STERLING	N/A	8,000,000.00	19/07/13		0.194180		
2400000006	MORGAN STANLEY	N/A	2,650,000.00	10/06/16		0.163118		
			26,650,000.00					
COLLECTIVE INVESTMENT FUNDS								
2800000004	PAYDEN & RYGEL	N/A	7,946,212.38	01/02/12				
2800000005	FEDERATED PRIME RATE C+	N/A	5,158,856.78	27/03/13				
2800000006	CCLA INVESTMENT MGT LTD	N/A	10,000,000.00	28/11/13				
2800000007	SLI SHORT DURATION FUND	N/A	7,911,233.96	16/03/15				
2800000008	ROYAL LONDON ASSET MGT	N/A	4,840,255.99	27/09/16				
2800000009	ROYAL LONDON ASSET MGT	N/A	3,020,344.99	27/09/16				
2800000010	DB SHORT DURATION FUND	N/A	1,003,676.89	01/02/17				
			39,880,580.99					
GRAND TOTAL			110,344,597.52					